

*IFRIC Update is published as a convenience to the IASB's constituents. All conclusions reported are tentative and may be changed or modified at future IFRIC meetings.*

*Decisions become final only after the IFRIC has taken a formal vote on an Interpretation or Draft Interpretation, which is confirmed by the IASB.*

The IFRIC met in London on 1 November 2007, when it discussed:

- IAS 18 *Revenue*—Customer contributions
- IAS 19 *Employee Benefits*—Death in service benefits
- IAS 27 *Consolidated and Separate Financial Statements*—Accounting for distributions of non-cash assets to owners
- IAS 39 *Financial Instruments: Recognition and Measurement*—Scope of paragraph 11A and application of paragraph AG33(d)(iii)
- IFRIC agenda decisions
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## IAS 18 *Revenue*—Customer contributions

The IFRIC continued its deliberations on how an entity should account for the receipt of a customer contribution. Such contributions arise when a customer provides an asset to a service provider that is then used to provide access to a supply of goods or services to the customer.

The IFRIC first considered how a service provider should account for the receipt of cash that must be used to construct or acquire an asset that is then used to provide access to a supply of goods or services to the customer. The IFRIC noted that, having received a cash contribution, the service provider is obliged to provide ongoing access to a supply of goods or services. Constructing an item of property, plant and equipment to use to provide that ongoing access is an integral part of providing access to the customer. The

construction is not a separate service to the customer and so does not result in the recognition of revenue.

The IFRIC therefore concluded that because the customer contributes cash to obtain ongoing access to a supply of goods or services, it should be recognised as revenue as that access is provided. In reaching this conclusion, the IFRIC considered whether the arrangement comprised two transactions for the customer — one being the acquisition of an asset in return for cash and the other being the acquisition of access to a supply of goods or services in return for the contribution of the asset. The IFRIC rejected this view on the basis that the asset acquired or constructed by the service provider remains its own asset for use in providing the customer with access to a supply of goods or services. It does not become an asset of the customer.

The IFRIC then considered a draft Interpretation it had asked the staff to prepare. The IFRIC reaffirmed its previous tentative decisions that:

- an entity that receives a contributed asset should first assess whether it has received an asset that it should recognise in accordance with IFRSs.
- if the entity has received an asset that it should recognise, that asset should be measured at fair value.
- the entity should apply IFRIC 4 to assess whether the ongoing service arrangement contains a lease of the asset back to the customer. If so, and the lease is a finance lease, the entity might conclude that its obligation to provide access to a supply of goods or services has been settled by the transfer of the asset to the customer.
- the credit that arises from recognising the asset at fair value represents an obligation to provide ongoing access to a supply of goods or services using that asset. Revenue should be recognised and the obligation reduced as access is provided.
- the period over which the access is provided is the period when the entity has an obligation (legal, contractual

or otherwise) to provide access to the supply of goods or services.

The IFRIC concluded that the draft Interpretation prepared by the staff should be published for comment, subject to drafting changes.

## IAS 19 *Employee Benefits*—Death in service benefits

At its September meeting, the IFRIC discussed a request for guidance to be issued on the accounting for death in service benefits. In some situations, IAS 19 requires such benefits to be attributed to periods of service using the projected unit credit method. The request asked for guidance on how an entity should attribute such benefits to periods of service.

In the September IFRIC *Update* the IFRIC published a tentative agenda decision proposing not to take the item on to its agenda on the basis that additional guidance on how to apply the projected unit credit method would be application guidance and that divergence in this area was not expected to be significant.

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One comment letter was received which disagreed with the wording in the tentative agenda decision that stated that, when death in service benefits are provided as part of a defined benefit plan, they must be attributed to periods of service. The comment letter noted that it could be argued that benefits are required to be attributed to periods of service only if they are dependent on the period of service.

Whilst the IFRIC did not change its decision not to take the issue on to its agenda, it was unable to agree on wording for its agenda decision. The IFRIC therefore asked the staff to present a paper to the next meeting with amended wording for its agenda decision.

## **IAS 27 Consolidated and Separate Financial Statements—Accounting for distributions of non-cash assets to owners**

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The IFRIC continued its discussion of how an entity should account for distributions of non-cash assets to its owners in their capacity as owners.

The IFRIC confirmed the following decisions made at its meeting in September 2007:

- all liabilities for distributions (dividends payable) should be measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, regardless of the type of assets to be distributed. IAS 37 requires an entity to measure a liability at the best estimate of the expenditure required to settle the present obligation. The IFRIC concluded that, to apply the requirements in IAS 37 to measure dividends payable, an entity should consider the fair value of the assets to be distributed.
- when an entity makes the distribution that settles the dividend payable and loses control over the assets distributed, any difference between the carrying amount of the dividend payable and the carrying amount of the assets distributed should be recognised in comprehensive income. The IFRIC noted that, at the time of settlement, the carrying amounts of the assets distributed would not normally be greater than the carrying amount of the dividend payable because of the recognition of impairment losses required by other applicable standards. Therefore, any difference between the carrying amount of the dividend payable and the carrying amount of the assets distributed will always be a credit balance.

In September the IFRIC had asked the staff to prepare a Draft Interpretation and a draft of potential amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* that the IFRIC could recommend to the Board.

At this meeting, the IFRIC considered the Draft Interpretation. In particular, it discussed where the credit balance should be recognised when the entity settled the dividend payable.

The staff recommended that the credit balance should be recognised in profit or loss. The IFRIC concluded that the Draft Interpretation should reflect the staff's

recommendation as the consensus. The IFRIC acknowledged that an asset distribution was a transaction between an entity and its owners. However, the credit balance did not arise from the distribution transaction. The credit balance represents the cumulative unrecognised gain associated with the asset distributed. In other words, it reflects the performance of the entity during the period from when the asset was acquired until it was distributed.

In addition, it was noted that such an accounting treatment was consistent with the following requirements in IFRSs and the *Framework for the Preparation and Presentation of Financial Statements*:

- Gains are recognised when assets are derecognised. IFRSs (eg IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 5) require the entity to recognise such gains in profit or loss.
- Paragraph 92 of the *Framework* states 'Income is recognised in the income statement when an increase in future economic benefits related to an increase in asset or a decrease of a liability has arisen can be measured reliably' (emphasis added). When an entity settles the dividend payable, there is clearly a decrease of a liability.
- IAS 1 *Presentation of Financial Statements*, as revised in September 2007, requires all non-owner changes in equity to be recognised in profit or loss unless an IFRS requires or permits them to be recognised elsewhere.

However, several IFRIC members expressed an alternative view that the credit balance should be recognised directly in equity. In their view, there is only one non-reciprocal transaction between an entity and its owners (despite the fact that an entity recognises an obligation to make the distribution and derecognises the liability at some stage).

The IFRIC concluded that the alternative view should also be presented in the Basis for Conclusions on the Draft Interpretation and that the Invitation to Comment on the Draft Interpretation should invite comment on both views.

In addition, the IFRIC decided that an amendment to IFRS 5 was needed. It concluded that the classification, presentation and measurement requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale and to discontinued operations should also be applied to assets (or disposal groups) held for distribution to owners.

Subject to other drafting comments, the IFRIC directed the staff to ask the Board:

- whether it would object to the publication of the draft Interpretation; and
- to approve the draft of proposed amendments to IFRS 5 to be exposed for comment along with the draft Interpretation.

## **IAS 39 *Financial Instruments: Recognition and Measurement*—Scope of paragraph 11A and application of paragraph AG33(d)(iii)**

At its meeting in September, the IFRIC had discussed a staff research paper that considered two application issues relating to IAS 39.

The first was whether the fair value option in paragraph 11A can be applied to contractual arrangements that are outside the scope of IAS 39 but contain one or more embedded derivatives. The second was how to determine the environment in which a transaction takes place for the purpose of applying paragraph AG33(d)(iii).

The IFRIC had noted that both issues relate to the scope of IAS 39 and that resolving them would require amendments to IAS 39. At this meeting, the staff presented a paper considering how the scope of IAS 39 could be revised.

The IFRIC was asked which of a number of approaches the Board should consider adopting. The approaches included:

- extending the scope of IAS 39 to include all contracts that have the characteristics of a derivative (as set out in paragraph 9 of IAS 39).
- extending the scope of IAS 39 to include some non-financial contracts.
- extending the scope of the fair value option in IAS 39 to include all or some non-financial contracts or non-financial non-contractual assets and liabilities.
- clarifying the wording and meaning of paragraph 11A and paragraph AG33(d).

The IFRIC recommended that changes to both paragraphs should be limited to clarifying their wording and meanings.

### *Paragraph 11A*

The IFRIC recommended that the Board should clarify paragraph 11A by specifying whether it applies only to contracts with embedded derivatives that have financial hosts, or whether the fair value option can be applied to all contracts with embedded derivatives.

### *Paragraph AG33(d)(iii)*

In the IFRIC's view, the Board intended paragraph AG33(d) to apply only to embedded foreign currency derivatives that are integral to the arrangement and hence bear a close economic relationship to the host contract. However, the IFRIC did not believe that making an explicit statement to that effect would clarify the standard and eliminate the diversity in practice.

The IFRIC recommended that the staff suggest how the paragraph could be amended to reflect the Board's intentions, for the Board's consideration.

## **IFRIC agenda decisions**

*The following explanations are published for information only and do not change existing IFRS requirements. IFRIC agenda decisions are not Interpretations.*

*Interpretations of the IFRIC are determined only after extensive deliberation and due process, including a formal vote. IFRIC Interpretations become final only when approved by nine of the fourteen members of the IASB.*

### **IAS 19 *Employee Benefits*—Changes to a plan caused by government**

The IFRIC was asked to provide guidance on accounting for the effects of a change to a defined benefit plan resulting from action by a government.

The IFRIC noted that IAS 19 already provides guidance on whether the identity of the originator of the change affects the accounting. Paragraph 55 of the basis for conclusions on IAS 19 explains the IASC Board's decision to reject the proposal that 'past service cost should not be recognised immediately if the past service cost results from legislative changes (such as a new requirement to equalise retirement ages for men and women) or from decisions by trustees who are not controlled, or influenced, by the entity's management'. In other words, the IASC did not believe that the source of the change should affect the accounting. Therefore, the accounting for changes caused by government should be the same as for changes made by an employer.

The IFRIC acknowledged that, in some circumstances, it might be difficult to determine whether the change affects either actuarial assumptions or benefits payable and noted that judgement is required. The IFRIC also noted that any guidance beyond that given in IAS 19 would be more in the nature of application guidance than an Interpretation.

For this reason, the IFRIC decided not to add this item to the agenda.

### **IAS 19 *Employee Benefits*—Treatment of employee contributions**

The IFRIC received a request to clarify the treatment of employee contributions in accordance with IAS 19. The first issue is how employee contributions should be accounted for in general. The second issue is how to account for a pension plan in which the cost of providing the benefits is shared between the employees and the employer.

On the first issue, the IFRIC noted that paragraph 7 of IAS 19 defines current service cost and that paragraph 120A of IAS 19 implies that contributions by employees to the ongoing cost of the plan reduce the current service cost to the entity. The IFRIC also noted that in accordance with paragraph 91 of IAS 19, employee contributions payable when benefits are paid, such as contributions to a post-employment healthcare plan, are to be taken into account in determining the defined benefit obligation.

On the second issue, the IFRIC noted that paragraph 85 of IAS 19 states that ‘If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes.’ Therefore, the IFRIC noted that:

- if the terms of a defined benefit plan include surplus-sharing provisions, the employer’s obligation to use any surplus in the plan for the benefit of plan participants (eg adjusting participants’ benefits) should be considered when measuring its obligation.
- if the terms of a defined benefit plan include cost-sharing provisions, the requirement for employees to make contributions to reduce or eliminate an existing deficit should be considered when measuring the employer’s obligation.

For these reasons, and because the IFRIC did not expect divergence in practice, the IFRIC decided not to take this item on to the agenda.

## **Tentative agenda decisions**

*The IFRIC reviewed the following matters and tentatively decided that they should not be taken on to the IFRIC agenda. These tentative decisions, including, when appropriate recommended reasons for not taking the item on to the IFRIC agenda, will be reconsidered at the IFRIC meeting in January 2008. Constituents who disagree with the proposed reasons, or believe that the explanations may contribute to divergent practices, are encouraged to communicate those concerns by 14 December preferably by email to: ifric@iasb.org or by post to:*

*International Financial Reporting Interpretations Committee  
First Floor, 30 Cannon Street  
London EC4M 6XH  
United Kingdom*

*Communications will be placed on the public record unless the writer requests confidentiality, supported by good reason, such as commercial confidence.*

### **IAS 19 Employee Benefits—Definition of plan assets**

The IFRIC received a request for guidance to be issued on the accounting for investment or insurance policies that are issued by an entity to a pension plan covering its own employees (or the employees of an entity that is consolidated in the same group as the entity issuing the policy). The request asked for guidance on whether such policies would be part of plan assets in the consolidated and separate financial statements of the sponsor.

The IFRIC noted the definitions of *plan assets*, *assets held by a long-term employee benefit fund* and *a qualifying insurance policy* in IAS 19 paragraph 7. The IFRIC noted that, if a policy was issued by a group company to the employee benefit fund then the treatment would depend upon whether the policy was a ‘non-transferable financial instrument issued by the reporting entity’. Since the policy was issued by a related party, it could not meet the definition of a qualifying insurance policy.

The IFRIC considered that the issue was too narrow in scope to develop an Interpretation and [decided] not to add the issue to its agenda.

### **IAS 19 Employee Benefits—Pension promises based on performance targets**

The IFRIC received a request to clarify the measurement of the defined benefit obligation when pension promises are based on achieving specific performance targets. Performance targets may relate to various forms of pension promises ranging from additional pensionable earnings from performance bonuses to more complex arrangements relating to additional sponsor contributions or years of deemed service. The issue is how defined benefit plans with such features should be accounted for in accordance with IAS 19.

The IFRIC noted that paragraph 73 of IAS 19 states that ‘Actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.’ Performance targets are variables that will affect the ultimate cost of providing the post-employment benefits. They should therefore be included in the determination of the benefit.

The IFRIC also noted that paragraph 67 of IAS 19 requires benefits to be attributed to periods of service according to the benefit formula, unless an employee’s service in later years will lead to a materially higher level of benefit than in earlier years. When benefits are affected by performance hurdles, the effect on the attribution of benefits must also be considered.

Given the requirements in IAS 19, the IFRIC did not expect divergence in practice and [decided] not to take this item to its agenda.

### **IAS 23 Borrowing Costs (as revised in 2007)—Foreign exchange and capitalisable borrowing costs**

The IFRIC received a request for guidance as to which foreign exchange differences may be regarded as adjustments to interest costs for the purpose of applying IAS 23 *Borrowing Costs*. IAS 23 states that ‘Borrowing costs may include...exchange differences arising from foreign currency borrowings *to the extent* that they are regarded as an adjustment to interest costs’ (emphasis added). The request asked for guidance both on the treatment of foreign exchange gains and losses and on the treatment of any derivatives used to hedge such foreign exchange exposures.

The IFRIC noted that the principle set out in paragraph 8 of IAS 23 states ‘an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset.’ The IFRIC also noted that paragraph 11 states ‘the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.’ Consequently, how an entity applies IAS 23 to foreign currency borrowings is an accounting policy choice and IAS 1 *Presentation of Financial Statements* requires clear disclosure of significant accounting policies that are relevant to an understanding of the financial statements.

The IFRIC noted that, notwithstanding the guidance in paragraphs 8 and 11 of IAS 23, the standard itself acknowledges that judgement will be required in its application and appropriate accounting policy disclosure would provide users with the information they need to understand the financial statements. The IFRIC [concluded]

that it was unnecessary to provide application guidance. The IFRIC also noted that, as part of its project to amend IAS 23, the Board specifically considered this issue and decided not to develop further guidance in this area. The IFRIC concluded that it should not develop guidance as the Board had already concluded it was not required.

The IFRIC therefore [decided] not to take this issue on to its agenda.

#### **IAS 37 Provisions, Contingent Liabilities and Contingent Assets—Deposits on returnable containers**

The IFRIC was asked to provide guidance on the accounting for the obligation to refund deposits on returnable containers. In some industries, entities that distribute their products in returnable containers collect a deposit for each container delivered and have an obligation to refund this deposit when containers are returned by the customer. The issue is whether the obligation should be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The IFRIC noted that paragraph 11 of IAS 32 *Financial Instruments: Presentation* defines a financial instrument as ‘any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.’ Following delivery of the containers to its customers, the seller has an obligation only to refund the deposit for any returned containers. That obligation is an exchange transaction of cash (the deposit) for the containers (non-financial assets). Whether that exchange transaction occurs is at the option of the customer. Because the transaction involves the exchange of a non-financial item, it does not meet the definition of a financial instrument in accordance with IAS 32 and therefore is not within the scope of IAS 39.

The IFRIC concluded that divergence in this area was unlikely to be significant and therefore [decided] not to add this issue to its agenda.

#### **IAS 39 Financial Instruments: Recognition and Measurement—Scope of IAS 39 paragraph 2(g)**

The IFRIC received a request for guidance on the appropriate interpretation of IAS 39 paragraph 2(g). This paragraph exempts from the scope of IAS 39 ‘contracts between the acquirer and a vendor in a business combination to buy or sell an acquiree at a future date’. The submission asked whether this scope exception applies only to binding contracts to acquire shares that constitute a controlling interest in another entity within the period necessary to complete a business combination, or if it applies more widely. The submission also asked for guidance on whether the scope exception could be applied to other similar transactions, such as those to acquire an interest in an associate.

The IFRIC noted that, for the scope exception to apply, an acquirer or vendor must conclude that a business combination exists or will occur which includes the contract in question. The IFRIC noted that this conclusion is appropriate in two situations:

- the contract commits the acquirer and vendor to a future business combination; any conditions in the contract cannot be within the control of the entities.

- in accordance with both IFRS 3 and the revised version of IFRS 3 to be issued in 2007, a business combination exists when the acquirer obtains control of the acquiree. Consequently, the IFRIC noted that a contract included in the determination that the acquirer has obtained control in accordance with IAS 27 would be part of the business combination.

The IFRIC also noted that scope exceptions cannot be applied by analogy to other transactions.

In the light of the above requirements in IFRSs, the IFRIC did not expect significant diversity in practice in the application of those requirements. The IFRIC also noted that specifying how to apply the scope exception in paragraph 2(g) of IAS 39 would require the development of application guidance rather than an Interpretation. The IFRIC, therefore, [decided] not to add the issue to its agenda.

## **IFRIC work in progress**

The IFRIC reviewed its list of outstanding issues. The staff pointed out that all of the active issues on the list had been discussed at this meeting with the exception of three items. Two of those items related to draft Interpretations that the IFRIC had published for comment. The staff noted that an analysis of the comments received on those draft Interpretations would be discussed at the meeting in January 2008. The third issue, relating to derecognition, was awaiting the allocation of staff resources.

From July 2006, IFRIC meetings have been audicast live via the Internet. Audio recordings are available to listen to via the Website and can be accessed via the IFRIC Projects included within the Current Projects area. Please visit the IASB Website at [www.iasb.org](http://www.iasb.org) for more information.

### **Future IFRIC meetings**

The IFRIC's meetings are expected to take place in London, UK, as follows:

#### **2008**

- 10 and 11 January
- 6 and 7 March
- 8 and 9 May
- 10 and 11 July
- 4 and 5 September
- 6 and 7 November

In addition to the meetings listed above, the IFRIC may hold meetings for a preliminary discussion of some staff papers. Attendance by IFRIC members at these meetings is voluntary and no decisions on technical issues will be made. If the IFRIC holds a preliminary meeting, it will normally take place on the Wednesday afternoon before the IFRIC meeting.

Meeting dates, tentative agendas and additional details about the next meeting will also be posted to the IASB Website at [www.iasb.org](http://www.iasb.org) before the meeting. Instructions for submitting requests for Interpretations are given on the IASB Website at <http://www.iasb.org/About+Us/About+IFRIC/Propose+Agenda+Item.htm>